

Message Text

CONFIDENTIAL POSS DUPE

PAGE 01 MADRID 00160 01 OF 02 081808Z

46

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SCEM-02 INT-08 SCI-06 SS-20 NSC-10

STR-08 AID-20 CEA-02 CIAE-00 COME-00 EB-11 EA-11

FRB-02 INR-10 NEA-10 NSAE-00 RSC-01 OPIC-12 SPC-03

TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 L-03 H-03 DRC-01

/193 W

----- 044066

R 081650Z JAN 74

FM AMEMBASSY MADRID

TO SECSTATE WASHDC 7747

INFO OECD PARIS 2628

USMISSION GENEVA

US MISSION EC BRUSSELS 764

C O N F I D E N T I A L SECTION 1 OF 2 MADRID 160

E.O. 11652: GDS

TAGS: EFIN, ECON, ENRG, OECD

SUBJ: ECONOMIC CONSEQUENCES FOR SPAIN OF OIL PRICE

INCREASE: BALANCE OF PAYMENTS AND OTHER
REPERCUSSIONS

REF: A) OECD PARIS 33075, B) OECD PARIS 33094,

C) STATE 249891, D) MADRID 5737,

E) GENEVA 5181, F) ST*TE 2951

1. SUMMARY: ACCORDING TO GROSS EMBASSY ESTI-
MATES CRUDE PETROLEUM PRICE INCREASES WILL COST SPAIN
AN ADDITIONAL \$1.5 BILLION IN 1974. THIS, ALONG WITH
SLOWDOWNS IN TOURISM REVENUES AND WORKERS' REMITTANCES,
LEADS TO A CONSERVATIVELY PROJECTED BASIC BALANCE OF PAYMENTS
DEFICIT OF \$1.5 BILLION IN 1974 AS COMPARED WITH SUR-
PLUSES OF \$1.6 BILLION IN 1972 AND PERHAPS \$1.0
BILLION IN 1973. RESERVES WILL DROP FROM THE PRESENT
\$7 BILLION TO UNDER \$5 BILLION BY YEAR'S END 1974.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 00160 01 OF 02 081808Z

TRADE LIBERALIZATION SEEMS DOOMED IN THE FACE OF THIS.
INFLATION WILL INCREASE TO EVER HIGHER HEIGHTS,

ECONOMIC GROWTH WILL LESSEN AND THE INHERENT UNEMPLOYMENT INCREASE WILL BE EXACERBATED BY A NET RETURN OF WORKERS FROM OTHER EUROPEAN COUNTRIES. THE ECONOMIC GOOD TIMES SEEM OVER FOR THE PRESENT. THIS CONJUNCTURE WILL GENERATE DESTABILIZING FORCES WITH NOT ONLY ECONOMIC BUT ALSO POSSIBLY POLITICAL IMPLICATIONS FOR SPAIN.
END SUMMARY.

2. EMBASSY ESTIMATES ARE THAT THE OCTOBER AND DECEMBER, 1973 INCREASES IN THE PRICES OF CRUDE OIL WILL RESULT IN AN INCREASED FOREIGN EXCHANGE COST FOR SPAIN ON THE ORDER OF \$1.5 BILLION IN 1974. THE CRUDE OIL IMPORT BILL IN 1972 WAS \$790 MILLION AND AN ESTIMATED \$1 BILLION IN 1973. CRUDE OIL IMPORTS IN 1974 ARE PROJECTED TO COST SPAIN \$2.5 BILLION WHICH SHOULD REPRESENT ABOUT 26 PERCENT OF THE TOTAL IMPORT BILL AS COMPARED WITH THE 15 PERCENT IN 1973 AND 12 PERCENT IN 1972.

3. THE FOREGOING CALCULATION IS BASED ON THE FOLLOWING SET OF ASSUMPTIONS:

A. THE FOB COST OF PETROLEUM WILL REMAIN CONSTANT THROUGHOUT THE YEAR AT 300 PERCENT ABOVE AVERAGE 1973 PRICES.

B. FREIGHT, INSURANCE AND THE COMPANY TAKE WILL REMAIN CONSTANT AT \$1.70 PER BARREL (THE AMOUNT THAT THE OECD ESTIMATES AS BEING THE AVERAGE PAID IN 1973).

C. IN VOLUME TERMS, IMPORTS OF CRUDE OIL WILL REMAIN STABLE AT THE LEVEL OF 1973, I.E., 3.5 MILLION METRIC TONS PER MONTH. SINCE THE FIRST NINE MONTHS OF 1973 REFLECTED AN 11.3 PERCENT INCREASE IN IMPORTS OVER THE SAME PERIOD IN 1972, THE MAINTENANCE OF 1973 IMPORT LEVELS THROUGH 1974 WOULD IN EFFECT, REFLECT FUEL CONSERVATION MEASURES OF A SORT.

4. THE INCIDENCE OF THE OIL PRICE INCREASE ON THE SPANISH TRADE BALANCE IS OF COURSE DRAMATIC. IN 1973 SPANISH TOTAL IMPORTS ARE EXTENDED TO REACH \$8.7 BILLION WHILE EXPORTS WILL PROBABLY BE \$5.3 BILLION, LEAVING A DEFICIT OF \$3.4 BILLION (BALANCE OF PAYMENTS TERMS).

CONFIDENTIAL
CONFIDENTIAL

PAGE 03 MADRID 00160 01 OF 02 081808Z

APPLYING THE PAST 6-MONTH RATES OF INCREASES TO NON-PETROLEUM IMPORTS (300 PERCENT) AND EXPORTS (30.5 PERCENT), AND ADJUSTING FOR THE HIGHER COST PETROLEUM, WOULD SIGNIFY A PROJECTED TRADE BALANCE DEFICIT OF \$5.9 BILLION IN 1974. THIS IS AN INCREASE OF \$2.5 BILLION OVER THE ESTIMATED TRADE DEFICIT OF \$3.4 BILLION IN 1973. IT IS CONSIDERED A QUITE CONSERVATIVE PROJECTION SINCE MORE RECENT MONTHS REFLECT A SLOWING DOWN OF EXPORTS (PLUS 22 PERCENT) AND AN ACCELERATION IN IMPORTS (PLUS 37 PERCENT) BEYOND THE ASSUMED

RATES APPLIED. PROJECTING ON THE BASIS OF THESE RATES WOULD ADD STILL ANOTHER \$1 BILLION TO THE 1974 TRADE DEFICIT.

5. TRADE BALANCE DEFICITS ARE OF COURSE CHRONIC IN THE SPANISH ECONOMIC STRUCTURE. NORMALLY THEY HAVE BEEN PRICIPALLY COMPENSATED FOR BY EARNINGS FROM TOURISM. IN 1972 THESE EARNINGS WERE \$2.5 BILLION AND IN 1973 THEY SEEM LIKELY TO BE SLIGHTLY IN EXCESS OF \$3 BILLION. THE FEAR IS THAT THE PETROLEUM SUPPLY PROBLEMS AS WELL AS INCREASED COSTS OF FUEL WILL TAKE THEIR TOLL ON THE TOURISM INDUSTRY IN SPAIN. DURING THE FIRST TEN MONTHS OF 1973 EARNINGS FROM TOURISM WERE UP 27.8 PERCENT OVER THE PREVIOUS YEAR, WHICH HAS BEEN MORE OR LESS TTHE HISTORIC RATE OF INCREASE FOR THE PAST SEVERAL YEARS. HOWEVER, NOVEMBER, 1973, SAW A RATE OF INCREASE OF ONLY 12.5 PERCENT OVER THE SAME MONTH IN 1972. WHILE PROJECTING ON A ONE-MONTH DATA BASE IS EXTREMELY RISKY THERE DOES SEEM, NEVERTHELESS, TO BE A CLEAR INDICATION OF A REDUCTION OF TOURISM IN FLOWS FOLLOWING ON THE PETROLEUM CRISIS. THIS WILL UNDOUBTEDLY HAVE AN EFFECT IN 1974, THE MAGNITUDE OF WHICH, HOWEVER, IS DIFFICULT TO PROJECT WITH ANY DEGREE OF ACCURACY. ASSUMING, HOWEVER, THAT THE RATE OF INCREASE FOR FOREIGN EXCHANGE EARNINGS FROM TOURISM IS REDUCED TO 13 PERCENT IN 1974 THIS WOULD MEAN NET 1974 REVENUES FROM TOURISM WOULD BE \$3.2 BILLION.

6. TRANSFERS FROM ABROAD, MAINLY FROM SPANISH WORKERS IN GERMANY, FRANCE AND SWITZERLAND, HAVE ALSO BEEN A TRADITIONALLY FAVORABLE BOP FACTOR. IN 1973 THE INFLOWS ON THIS ACCOUNT WILL PROBABLY BE AROUND \$1
CONFIDENTIAL
CONFIDENTIAL

PAGE 04 MADRID 00160 01 OF 02 081808Z

BILLION, UP AT THE USUAL GROWTH RATE OF 20 PERCENT FROM THE PREVIOUS YEAR. SINCE THE PETROLEUM SUPPLY PROBLEMS ARE FORECAST TO CAUSE INCREASED UNEMPLOYMENT IN EUROPE WE ASSUME NO GROWTH IN WORKERS' REMITTANCES IN 1974, WHICH WOULD IMPLY AN ANTICIPATED NET RETURN OF WORKERS TO SPAIN DUE TO LAYOFFS FOLLOWING ENERGY-SHORTAGE-INDUCED PRODUCTION CUTBACKS. IF THERE ARE ONE MILLION SPANIARDS WORKING ABROAD, AS IS GENERALLY ASSUMED, AND THEIR ANNUAL INCREASE IN WAGES HAS BEEN 10 PERCENT, THE ABOVE ASSUMPTION SIGNIFIES A NET RETURN TO SPAIN OF 100,000 WORKERS OVER THE COURSE OF 1974.

7. SUMMING THAT
EFFECT OF THE ABOVE BOP ACCOUNTS
TO THE CAPITAL BALANCE (WHICH WE ASSUME WILL REMAIN
CONSTANT IN 1974 AT A \$500 MILLION NET INFLOW)
MEANS A BASIC BALANCE DEFICIT OF \$1.5 BILLION WILL BE RECORDED
IN 1974. THIS COMPARES WITH SURPLUSES OF \$1.6 BILLION

IN 1972 AND 0.7 TO 1.0 BILLION DOLLARS IN 1973.

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 MADRID 00160 02 OF 02 081814Z

46

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SCEM-02 INT-08 SCI-06 SS-20 NSC-10

STR-08 AID-20 CEA-02 CIAE-00 COME-00 EB-11 EA-11

FRB-02 INR-10 NEA-10 NSAE-00 RSC-01 OPIC-12 SPC-03

TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01 L-03 H-03 DRC-01

/193 W

----- 044135

R 081650Z JAN 74

FM AMEMBASSY MADRID

TO SECSTATE WASHDC 7748

INFO OECD PARIS 2629

USMISSION GENEVA

US MISSION EC BRUSSELS 765

C O N F I D E N T I A L SECTION 2 OF 2 MADRID 160

8. IT THEREFORE SEEMS THAT SPAIN'S INTERNATIONAL RESERVES, WHICH HAVE CLIMBED STEADILY OVER THE PAST THREE YEARS TO NEARLY \$7 BILLION, WILL DROP BACK TO ABOUT \$5 BILLION BY THE END OF 1974. THE FACT THAT SPAIN HAS THIS RESERVE CUSHION WILL FORTUNATELY TEMPORARILY SOFTEN SOMEWHAT THE SHOCK OF THE PETROLEUM PRICE INCREASES.

9. ANOTHER CONSEQUENCE IS THAT ANY IMPORT LIBERALIZATION PROGRAMS THAT MIGHT HAVE BEEN EARLIER CONTEMPLATED MAY NOW BE INDEFINITELY PORTPONED. JUSTIFICATION WILL BE GIVEN TO THE ARGUMENTS OF THE STRONG OPPONENTS OF LIBERALIZATION MEASURES WITH THE GOVERNMENT WHO SOUGHT TO RESIST GATT AND OECD PRESSURES IN THIS REGARD, AND WILL NOW BE ABLE TO SAY "I TOLD YOU SO." THE POSITION OF THE LIBERALIZERS WILL BE WEAKENED AND MAKE ANY TRADE NEGOTIATIONS AN EVEN TOUGHER PROPOSITION THAN BEFORE.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 MADRID 00160 02 OF 02 081814Z

10. THE ABOVE DOES NOT ADDRESS THE INFLATIONARY EFFECT OF THE INCREASED COSTS OF OIL WHICH COULD ADD UP TO 2 PERCENT ANNUALLY TO THE ALREADY HIGH EXISTING RATE OF 14-15 PERCENT. THE SOCIALLY AND POLITICALLY DESTABILIZING FORCE OF THIS COMBINED WITH THE INCREASED UNEMPLOYMENT DUE TO THE ANTICIPATED SLOWING DOWN OF THE RATE OF GROWTH OF DOMESTIC PRODUCTION AND THE NEED TO ABSORB THE WORKERS RETURNING FROM ABROAD INDICATE A TROUBLESOME YEAR AHEAD FOR SPAIN IN MANY RESPECTS. GNP WAS OPTIMISTICALLY PREDICTED BY THE GOS TO DROP BY ABOUT 2 PERCENT IN 1974 TO 6.5 PERCENT, WITHOUT CRANKING IN THE ENERGY SUPPLY-PRICE PROBLEM. (OIL IMPORTS IN NOVEMBER WERE DOWN 32PERCENT FROM THE PREVIOUS THREE MONTHS' AVERAGE.) ALLOWING FOR THIS FACTOR, A ROUGH ESTIMATE COULD LOWER GROWTH ANOTHER 2 PERCENT AT LEAST. BY SPANISH STANDARDS THIS IS CLEARLY A RECESSION SITUATION. THE SOLID ECONOMIC PROGRESS WHICH HAS SO BUTTRESSED SPANISH INSTITUTIONS FOR MANY YEARS IN THE PAST SEEMS LIKELY TO BE GREATLY REDUCED IF NOT REMOVED IN THE COURSE OF 1974 AND BEYOND. ECONOMIC FORECASTING IS ALWAYS TRICKLY AND IN THE PRESENT, RAPIDLY CHANGING CIRCUMSTANCES, A VERY SPECULATIVE UNDERTAKING. IN THIS FORECAST WE HAVE ATTEMPTED THEREFORE TO BE OPTIMISTIC ON THE UPSIDE AND CONSERVATIVE ON THE DOWNSIDE POSSIBILITIES. NEVERTHELESS, WE MUST CONCLUDE THAT THE GOLDEN YEARS OF EVER-INCREASING PROSPERITY IN SPAIN SEEM OVER FOR THE TIME BEING. THE POLITICAL IMPLICATIONS OF THIS REMAIN TO BE SEEN. HOWEVER, AN ECONOMIC RECESSION COULD PUT EXISTING ORDER TO A GREATER TEST THAN THE RECENT ASSASSINATION OF THE PRESIDENT OF GOVERNMENT, ESPECIALLY IF IT TAKES PLACE CONCURRENTLY WITH THE PASSING OF FRANCO.

RIVERO

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, ECONOMIC STABILITY, MIGRATORY WORKERS, UNEMPLOYMENT, PRICES, ECONOMIC REPORTS, IMPORT DATA, EXPORT DATA, BALANCE OF PAYMENTS DEFICITS
Control Number: n/a
Copy: SINGLE
Draft Date: 08 JAN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: garlanwa
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974MADRID00160
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: n/a
From: MADRID
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740156/aaaacbfe.tel
Line Count: 262
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: A) OECD PARIS 33075, B) OECD PARIS 3, 3094
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 02 APR 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <02 APR 2002 by kelleyw0>; APPROVED <14 MAY 2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC CONSEQUENCES FOR SPAIN OF OIL PRICE INCREASE: BALANCE OF PAYMENTS AND OTHER
TAGS: EFIN, ECON, ENRG, SP, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005